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December 7, 2021

Chairman John Larson
Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives
1501 Longworth House Office Building
Washington, D.C. 20515

Ranking Member Tom Reed
Subcommittee on Social Security
Committee on Ways and Means
U.S. House of Representatives
1203 Longworth House Office Building
Washington, D.C. 20515

Dear Chairman Larson and Ranking Member Reed:

On behalf of the National Federation of Independent Business (NFIB), the nation's leading small business association, I write in opposition to H.R.5723, the *Social Security 2100: A Sacred Trust*, which is the focus of today's hearing.

H.R. 5723 creates a shrinking donut hole for earnings currently exempt from payroll taxes. Since three-quarters of small employers are organized as pass-through entities (S-corporations, sole proprietorships, LLCs, and partnerships), this proposal would effectively subject more earnings to the payroll tax. The annual limit on taxable earnings is \$142,800 for 2021. H.R. 5723 proposes taxing earnings above \$400,000. As the current cap is liberally increased every year, it is only a matter of time until all earnings are considered taxable, effectively erasing any exemption amount.

NFIB has chronicled small business owners' top concerns through decades of research. The NFIB Research Center's recent *Small Business Problems & Priorities* survey notes, the most severely ranked tax problem for small business owners is "Federal Taxes on Business Income;" this topic ranks third out of 75 policy concerns.¹ Further, in NFIB's latest tax survey, small business owners shared that federal business income taxes were the most burdensome tax on both a financial and administrative basis, followed closely by payroll taxes.²

In addition to the *Problems and Priorities* and *NFIB 2021 Tax* surveys, NFIB also ballots members semiannually on relevant policy issues. In April 2019, NFIB asked small business owner members if Congress should increase the payroll tax rate to provide more benefits to Social Security recipients. Over 82 percent of the respondents answered no.

Small business owners continue to struggle with an historic workforce shortage, rising inflation, and supply chain disruptions caused by the COVID-19 pandemic. Additionally, the House of Representatives just passed the *Build Back Better Act*, which creates a "Small Business Surtax" by expanding the 3.8% net investment income tax (NIIT) to all business income above similar thresholds as the proposed

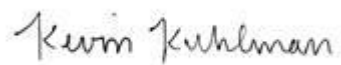
¹ Holly Wade, *Small Business Problems & Priorities: Tenth Edition*, NFIB Research Center, 2020, <https://assets.nfib.com/nfibcom/NFIB-Problems-and-Priorities-2020.pdf>.

² William C. Dunkelberg and Holly Wade, *NFIB 2021 Tax Survey*, NFIB Research Center, August 2021, <https://assets.nfib.com/nfibcom/NFIB-Tax-Survey-Full-Report.pdf>.

legislation. Further expanding payroll taxes permanently to enhance Social Security benefits temporarily would create additional obstacles that threaten the fragile small business recovery. These proposed taxes would reduce business income that could be used to increase employee compensation, invest in the business, and create jobs.

We appreciate the Committee's interest in providing solvency to the Social Security Trust Fund. However, we remain deeply concerned how this increased tax burden would affect small businesses.

Sincerely,

A handwritten signature in dark ink that reads "Kevin Kuhlman". The signature is written in a cursive, slightly slanted style.

Kevin Kuhlman
Vice President, Federal Government Relations
NFIB